BUSINESS, LABOR & ECONOMIC AFFAIRS
EXHIBIT No. 1
DATE 2-20-07
BILL No. SB 455

LegalNewsline.co

Wednesday, February 14, 2007

State AGs

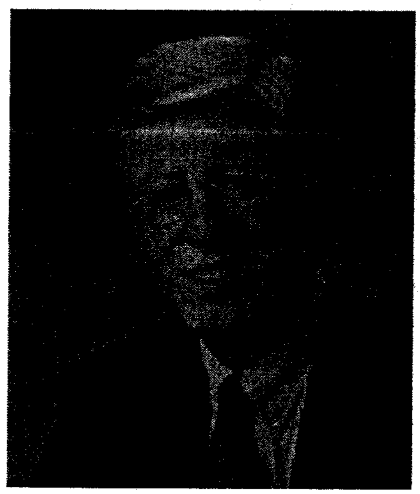
2/8/2007

Farm-belt AGs taking aim at low income lending shops

JEFFERSON CITY -- Missouri Attorney General Jay Nixon yesterday became part of what's starting to look like a Midwestern trend.

Jay Nixon

Nixon is now the second state attorney general from that region in less than two months to call on his state legislature to impose caps on the interest rates charged by so-called "payday loan" (or "car-title loan") stores. Such businesses are expanding rapidly in the region.



Tom Miller

Payday/car-title loan providers typically lend relatively small sums of money ($100-$5,000) over short terms (usually weeks) at high interest rates. These rate payments become especially onerous if the borrower "rolls over" (postpones payment on) the loan.

Nixon claimed yesterday that "payday loan" providers in Missouri charged an average annual percentage rate of 422 percent. He said the number of Missouri-licensed payday-loan businesses, which serve mostly low-income, high-risk borrowers without credit cards or bank accounts, had risen from 347 in 2005 to 1,545 in 2006.

He called on the state legislature to cap all rates and fees charged by such lenders at 36 percent.

But Iowa Attorney General Tom Miller has already gone one better. Late last year Miller repeated his call of a year earlier for the legislature to cap so-called "car-title loan" interest rates at 21 percent, 15 points lower than Nixon.

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Miller claimed some APRs on such loans in Iowa, which shares its southern border with Missouri, topped 360 percent. That's also significantly lower than the average of 422 percent Nixon claimed for Missouri.

The legislation proposed in Missouri would also, not surprisingly, significantly increase the attorney general's jurisdiction over the sector, which is currently regulated by the Missouri Division of Finance.

It would allow the attorney general "to sue for injunctions, restitution, rescission of loan contracts and civil penalties for violations." It would also permit the attorney general to issue "cease and desist orders against violators."

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